

DEPARTMENT OF TRANSPORTATION**AUDITS AND INVESTIGATIONS**

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June 14, 2010

Mr. Wayne Moore
Chief Financial Officer
Southern California Association of Governments
818 West Seventh Street, 12th Floor
Los Angeles, CA 90017-3435

Re: Southern California Association of Governments
Audit of Indirect Cost Allocation Plan for FY 2009/10
File Number: P1591-0044

Dear Mr. Moore:

We have audited the Southern California Association of Governments' (SCAG) Indirect Cost Allocation Plan (ICAP) for the fiscal year (FY) ended June 30, 2010 to determine whether the ICAP is presented in accordance with 2 of the Code of Federal Regulations (CFR) Part 225 and the California Department of Transportation's (Department) Local Programs Procedures (LPP) 04-10. SCAG management is responsible for the fair presentation of the ICAP. SCAG proposed an indirect cost rate of 96.26 percent total direct salaries and wages plus fringe benefits.

Our audit was conducted in accordance with the Standards for Performance Audits set forth in the *Government Auditing Standards* issued by the Comptroller General of the United States of America. The audit was less in scope than an audit performed for the purpose of expressing an opinion on the financial statements of SCAG. Therefore, we did not audit and are not expressing an opinion on SCAG's financial statements.

The standards require that we plan and perform the audit to obtain reasonable assurance about whether the data and records reviewed are free of material misstatement, as well as material noncompliance with fiscal provisions relative to the ICAP. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the data and records reviewed. An audit also includes assessing the accounting principles used and significant estimates made by SCAG, as well as evaluating the overall presentation.

The accompanying ICAP was prepared on a basis of accounting practices prescribed in the 2 CFR Part 225 and the Department's LPP 04-10, and is not intended to present the results of operations of SCAG in conformity with generally accepted accounting principles.

The scope of the audit was limited to select financial and compliance activities. The audit consisted of a recalculation of the ICAP and a limited review of SCAG's Overall Work Program for FY 2009/10. A review of SCAG's single audit report for the FY ended June 30, 2008, inquiries of SCAG personnel and reliance placed on the single audit report for the FY ended June 30, 2008 and prior audit field work performed by the Department in September 2005. We believe that our audit provides a reasonable basis for our conclusion.

Because of inherent limitations in any financial management system, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the financial management system to future periods are subject to the risk that the financial management system may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

The results of this audit were communicated to Basil Panas, SCAG's Manager of Accounting on February 9, 2010. Our findings and recommendations take into consideration SCAG's response to our draft finding. Our findings and recommendations, a summary of the SCAG's response and our analysis of the response are detailed below.

AUDIT RESULTS

Based on audit work performed, SCAG's ICAP for the FY ended June 30, 2010 is presented in accordance with 2 CFR Part 225 and LPP 04-10. The approved indirect cost rate is 96.26 percent of total direct salaries and wages, plus fringe benefits. The approval is based on the understanding that a carry forward provision applies and no adjustment will be made to previously approved rates.

SCAG requested a provisional rate of 97.65 percent on June 3, 2009, for FY 2009/10. The provisional rate was approved on July 8, 2009. As agreed to in the provisional rate request, within 30 days of issuance of this audit report, SCAG must reconcile all prior reimbursed claims under the provisional rate with the final approved rate. SCAG will include any overpayments on the next billing to the Department.

Audit Findings

Finding 1

SCAG's Account 60202 titled "Health ins.-retirees GASB 45" or Other Post Employment Benefits (OPEB) estimate for FY 2009/10 in the amount of \$722,786 was incorrectly based on Pay-As-You-Go (PAYGO) cost and the Annual Required Contribution (ARC) amount. SCAG increased the ARC by 3.25 percent for two years then deducted the PAYGO. SCAG could not provide support for the 3.25 percent increase.

Per Governmental Accounting Standards Board (GASB) Statement 45, OPEB costs should be based on actuarial valuations.

The budgeted OPEB costs in the FY 2009/10 ICAP should be \$767,000 and the budgeted PAYGO costs should be removed from the ICAP. The budgeted costs were adjusted by SCAG prior to the rate being approved.

Recommendation

SCAG should ensure the OPEB costs are based on the GASB 45 actuarial valuation. SCAG should also ensure the budgeted costs are supported prior to including them in the ICAP.

SCAG's Response

The auditee agreed with the finding and revised the ICAP accordingly.

Analysis of Response

The finding and recommendation remain as written.

Finding 2

The budgeted FY 2009/10 depreciation expense for furniture, computers, and lease-hold improvements (LHI) of \$250,085 was misstated. The 49 CFR 18.20 (b) (1) states, in part, that accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.

The total depreciation expense should be \$209,655 (\$183,249 for depreciation of furniture and computers and \$26,406 for the LHI amortization). The budgeted costs were adjusted by SCAG prior to the rate being approved.

Recommendation

SCAG should ensure the budgeted costs are supported prior to including them in the ICAP.

SCAG's Response

The auditee agreed with the finding and revised the ICAP accordingly.

Analysis of Response

The finding and recommendation remain as written.

Finding 3

SCAG included budgeted costs to pay membership dues to the National Association of Regional Council (NARC) in the amount of \$25,000 and California Association of Councils Government (CalCOG) in the amount of \$33,155 in their carry forward for FY 2007/08 ICAP. Appendix B to 2 CFR Part 225 (24)(a) states: *General. The cost of certain influencing activities associated with obtaining grants, contracts, cooperative agreements, or loans is an unallowable costs.* NARC and CalCOG are involved in lobbying activities; therefore, these costs are unallowable.

Recommendation

SCAG should exclude all lobbying activity costs from the ICAP.

SCAG's Response

The auditee agreed with the finding and revised the ICAP accordingly.

Analysis of Response

The finding and recommendation remain as written.

This report is intended solely for the information of SCAG, Department Management, the California Transportation Commission and the Federal Highway Administration (FHWA). However, this report is a matter of public record and will be posted on the Reporting Transparency in Government website.

Please retain the approved ICAP for your files. Copies were sent to the Department's District 7, the Department's Division of Accounting, and FHWA. If you have any questions, please contact Annabel Alvarez, Auditor, at (916) 323-7178 or Cliff Vose, Audit Manager, at (916) 323-7917.

MARYANN CAMPBELL-SMITH
Chief, External Audits – Local Governments

Attachments

- c: Brenda Bryant, Director, Financial Services, Federal Highway Administration
 - Sue Kiser, Director, Planning and Air Quality, Federal Highway Administration
 - James Ogbonna, Chief, Rural Transit and Procurement, Division of Mass Transportation
 - David Saia, Senior Transportation Engineer, Policy Development and Quality Assurance, Division of Local Assistance
 - Jenny N. Tran, Associate Account Analyst, Local Program Accounting Branch, Local Assistance
 - Andrew Knapp, Associate Transportation Planner, Regional and Interagency Planning, Division of Transportation Planning
 - Ilene Gallo, Senior Transportation Planner, District 7
 - Kirk Cessna, DLAE, Chief, Office of Local Assistance, District 7 – Division of Planning, Public Transportation and Local Assistance
- File copy: P1591-0044

SOUTHERN CALIFORNIA ASSOCIATION OF GOVERNMENTS
Indirect Cost Plan

The indirect cost rate contained herein is for use on grants, contracts and other agreements with the Federal Government and California Department of Transportation (Department), subject to the conditions in Section II. This plan was prepared by the Southern California Association of Governments (Grantee) and approved by the Department.

SECTION I: Rates

Rate Type	Effective Period	Rate*	Applicable To
Fixed rate w/carryforward	7/1/09-6/30/10	96.26%	All Programs

*Base: Total Direct Salaries and fringe benefits

SECTION II: General Provisions

A. Limitations:

The rate(s) in this Agreement are subject to any statutory or administrative limitations and apply to a given grant, contract, or other agreement, only to the extent that funds are available. Acceptance of the rates is subject to the following conditions: (1) Only costs incurred by the organization are included in its indirect cost pool as finally accepted; such costs are legal obligations of the organization and are allowable under the governing cost principles; (2) The same costs that have been treated as indirect costs are not claimed as direct costs; (3) Similar types of costs have been accorded consistent accounting treatment; and (4) The information provided by the organization used to establish the rates is not later found to be materially incomplete or inaccurate by the Federal Government or the Department. In such situations, the rate(s) would be subject to renegotiation at the discretion of the Federal Government or the Department; (5) Prior actual costs used in the calculation of the approved Rate(s) are contained in the grantee's Single Audit, which was prepared in accordance with OMB Circular A-133. If a Single Audit is not required to be performed, then audited financial statements should be used to support the prior actual costs; and, (6) This rate is based on an estimate of the costs to be incurred during the period.

B. Accounting Changes:

This Agreement is based on the accounting system purported by the organization to be in effect during the Agreement period. Changes to the method of accounting for costs which affect the amount of reimbursement resulting from the use of this Agreement require prior approval of the authorized representative of the cognizant agency. Such changes include, but are not limited to, changes in the charging of a particular type of cost from indirect to direct. Failure to obtain approval may result in cost disallowances.

C. Fixed Rate with Carry Forward:

The fixed rate used in this Agreement is based on an estimate of the costs for the period covered by the rate. When the actual costs for this period are determined either by the grantee's Single Audit or if a Single Audit is not required, then by the grantee's audited financial statements any

differences between the application of the fixed rate and actual costs will result in an over or under recovery of costs. The over or under recovery will be carried forward, as an adjustment to the calculation of the indirect cost rate, to the second fiscal year subsequent to the fiscal year covered by this plan.

D. Audit Adjustments:

Immaterial adjustments resulting from the audit of information contained in this plan shall be compensated for in the subsequent indirect cost plan approved after the date of the audit adjustment. Material audit adjustments will require reimbursement from the grantee.

E. Use by Other Federal Agencies:

Authority to approve this agreement by the Department has been delegated by the Federal Highway Administration, California Division. The purpose of this approval is to permit subject local government to bill indirect costs to Title 23 funded projects administered by the Federal Department of Transportation (DOT). This approval does not apply to any grants, contracts, projects, or programs for which DOT is not the cognizant Federal agency.

The approval will also be used by the Department in State-only funded projects.

F. Other:

If any Federal contract, grant, or other agreement is reimbursing indirect costs by a means other than the approved rate(s) in this Agreement, the organization should (1) credit such costs to the affected programs, and (2) apply the approved rate(s) to the appropriate base to identify the proper amount of indirect costs allocable to these programs.

G. Rate Calculation:

FY09-10 Budgeted Indirect Costs:	
Salaries and fringe benefits	\$ 4,368,380
Indirect Non-Labor Budget	\$ 5,089,224
Indirect Cost Carry Forward from FY07-08	\$121,670
 Total FY09-10 Indirect Costs	 \$9,579,274
 FY09-10 Budgeted Salaries & fringe benefits	 \$9,950,966
 FY09-10 Indirect Cost Recovery Rate	 96.26%

H. Vacancy Rate Analysis:

As in FY08-09, the reduction for vacancies in FY09-10 was included in the salary budget. In both years, a 4% vacancy factor is incorporated into the indirect cost plan.

CERTIFICATION OF INDIRECT COSTS

This is to certify that I have reviewed the indirect cost rate proposal submitted herewith and to the best of my knowledge and belief:

- (1) All costs included in this proposal to establish billing or final indirect costs rates for fiscal year 2010 (July 1, 2009 to June 30, 2010) are allowable in accordance with the requirements of the Federal and State award(s) to which they apply and OMB Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments." Unallowable costs have been adjusted for in allocating costs as indicated in the indirect cost plan and Attachments I-IV.
- (2) All costs included in this proposal are properly allocable to Federal and State awards on the basis of a beneficial or causal relationship between the expenses incurred and the agreements to which they are allocated in accordance with applicable requirements. Further, the same costs that have been treated as indirect costs have not been claimed as direct costs. Similar types of costs have been accounted for consistently and the Federal Government and the Department will be notified of any accounting changes that would affect the fixed rate.

I declare that the foregoing is true and correct.

Governmental Unit: ~~Southern California Association of Governments~~

Signature: _____

Signature: _____

Reviewed, ~~Approved~~ and Submitted by:

Prepared by:

Name of Official: Wayne Moore

Name of Official: Basil Panas

Title: Chief Financial Officer

Title: Mgr., Accounting & Finance

Date: June 3, 2009

Date: June 3, 2009

Phone: (213) 236-1804

Phone: (213) 236-1817

Date of Execution:

INDIRECT COST RATE APPROVAL

Caltrans Audits and Investigations has reviewed this indirect cost plan and hereby approves the plan.

Signature: _____

Signature: _____

Reviewed and Approved by:

Reviewed and Approved by:

MARYANN CAMPBELL-SMITH

~~MAX CHAMBERLAIN~~ ANNABEL ALVAREZ

Title: Chief of External Audits

Auditor

Date:

Date:

Phone Number: 916-323-7105

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